

HOME-BASED BUSINESS SCHEME

Abusive home-based business tax schemes have gained popularity over the last few years for a variety of reasons, including:

- Taxpayers being inappropriately advised they can deduct all or a portion of their personal assets and living expenses.
- Unscrupulous promoters and tax practitioners selling “tax relief” and “audit assistance” packages.
- The desire of individuals to reduce the amount of taxes they pay.
- Aggressive marketing of multi-level pyramid schemes.

Many taxpayers accurately report their income and expenses, while enjoying the benefits that a home-based business can offer. However, there are individuals who have received advice that they can operate any type of unprofitable “business” out of their home and claim personal expenses. Non-deductible personal living expenses cannot be transformed into deductible expenses regardless of how convincing the information in marketing materials may seem.

Applicable Internal Revenue Code sections include, but are not limited to:

- § [127](#) - Educational Assistance Programs
- § [162](#) - Trade or Business Expenses
- § [183](#) - Activities Not Engaged in for Profit
- § [195](#) - Start-up Expenditures
- § [212](#) - Expenses for the Production of Income
- § [262](#) - Personal, Living, and Family Expenses
- § [274](#) - Disallowance of Certain Entertainment, etc., Expenses
- § [280A](#) - Disallowance of Certain Expenses in Connection with Business Use of Home, etc

The following are a few examples of items that are generally not deductible as business expenses:

- Deducting the cost and operation of a personal residence. Placing a calendar, desk, file cabinet, telephone, or some other business-related item in each room does not increase the amount that can be deducted. Individuals may attempt to deduct a portion of the total house payment, which is not allowable. (Even in cases of appropriate home-business deductions, depreciation recapture rules are applicable when assets are later sold.)
- Paying children a salary (e.g. answering telephones, washing cars, etc.).
- Deducting education expenses for children without regard for Internal Revenue Code § [127](#).

- Deducting excessive car and truck expenses when the asset has been used for both business and personal use.
- Deducting personal furniture, home entertainment equipment, children's toys, etc.
- Deducting travel, meals, and entertainment under the guise that everyone is a potential client.

Any investment scheme or promotion that claims to allow a person to deduct normal personal expenses should be considered highly suspect. A business must truly exist prior to claiming expenses.

